



GREATER  
**KOKSTAD**  
MUNICIPALITY

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2012

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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LEGAL FORM OF ENTITY	Local Municipality	
MEMBERS OF THE COUNCIL	Cllr NT Jojozi Cllr ZA Mhlongo Cllr BM Mtolo Cllr FA Rodgers Cllr PX Xelitole Cllr TM Mohlakoana Cllr LJ Sithole Cllr MM Nondabula Cllr TO Madikizela Cllr NT Mqikela Cllr NC Nyembezi Cllr JL Kotting Cllr V Ncukana Cllr N Mavuka Cllr P Nocanda Cllr MN Dlakavu	<b>Mayor</b> <b>Speaker</b> <b>Deputy Mayor</b> <b>Executive committee member</b> Member Member Member Member Member Member Member Member Member Member Member Member
ACCOUNTING OFFICER/MUNICIPAL MANAGER	Mr F.T Nxumalo Mr Nkosi	<b>December 2011- present</b> <b>July 2011-September 2011</b>
CHIEF FINANCIAL OFFICER	Mrs N. Gqola Mr L. Ndzelu	<b>June 2012-present</b> <b>July 2011-March 2012</b>
GRADING OF LOCAL AUTHORITY	Level 7	
AUDITORS	Auditor General South Africa(AGSA)	
REGISTERED OFFICE/PHYSICAL ADDRESS	75 Hope Street Kokstad 4700	
POSTAL ADDRESS	P O Box 08 Kokstad 4700	
BANKERS	FNB	
TELEPHONE NUMBER	039-797-6600	
FAX NUMBER	039-727-3676	
E-MAIL	municipality@kokstad.org.za	

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Index

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INDEX	PAGE
Approval of Annual Financial Statements	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8 - 18
Notes to the Annual Financial Statements	19 - 43
Appendices:	
Appendix A: Schedule of External loans	44
Appendix B: Analysis of Property, Plant and Equipment	49
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	54

## **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

### **Approval of Annual Financial Statements**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 43, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**Mr F.T Nxumalo**  
**Municipal Manager**  
**31 August 2012**

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Position

Figures in Rand	note(s)	June 2012	June 2011 Restated
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	2	468,538	477,578
Other receivables from non-exchange transactions	3	1,507,877	3,949,122
VAT receivable	4	1,172,409	4,081,272
Prepayments		231,069	79,533
Trade and other receivables from exchange transactions	5	22,162,322	29,219,304
Cash and cash equivalents	6	8,225,261	4,844,697
		<b>33,767,476</b>	<b>42,651,506</b>
<b>Non-Current Assets</b>			
Investment property	7	16,426,700	16,426,700
Property, plant and equipment	8	224,871,895	209,251,150
Intangible assets	9	199,647	421,041
		<b>241,498,242</b>	<b>226,098,891</b>
<b>Total Assets</b>		<b>275,265,718</b>	<b>268,750,397</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Finance lease obligation	10	668,315	645,341
Trade and other payables from exchange transactions	11	32,769,498	28,159,026
Consumer deposits	12	3,288,446	2,862,364
Unspent conditional grants and receipts	13	4,318,384	1,890,863
Provisions	14	3,845,079	5,388,197
Current borrowings	15	629,283	558,036
		<b>45,519,005</b>	<b>39,503,827</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	10	2,506,115	649,913
Retirement benefit obligation	16	12,734,326	10,782,151
Borrowings	15	2,890,980	3,520,263
		<b>18,131,421</b>	<b>14,952,327</b>
<b>Total Liabilities</b>		<b>63,650,426</b>	<b>54,456,154</b>
<b>Net Assets</b>		<b>211,615,292</b>	<b>214,294,243</b>
<b>NET ASSETS</b>			
Reserves			
Housing Operating Account		1,167,378	-
Accumulated surplus		210,447,914	214,294,243
<b>Total Net Assets</b>		<b>211,615,292</b>	<b>214,294,243</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

Figures in Rand	Note(s)	June 2012	June 2011 Restated
<b>Revenue</b>			
Property rates	18	52,045,924	52,250,702
Service charges	19	90,192,345	84,000,596
Property rates - penalties imposed and collection charges		2,640,932	458,803
Rental of facilities and equipment		1,018,257	875,464
Public contributions and donations		9,197	2,067,340
Fines		2,911,252	742,976
Licences and permits		1,436,197	4,023,111
Government grants & subsidies	20	73,603,215	64,671,158
Recoveries		218,991	116,014
Interest received - other		771,048	1,070,185
<b>Total Revenue</b>		<b>224,847,358</b>	<b>210,276,349</b>
<b>Expenditure</b>			
Personnel	22	(69,267,399)	(62,923,878)
Remuneration of councillors	23	(4,255,409)	(3,198,403)
Depreciation and amortisation	25	(19,918,095)	(15,740,932)
Finance costs	26	(763,983)	(1,247,831)
Debts written off	24	(1,428,415)	(6,506,544)
Collection costs		(1,587,470)	(766,253)
Repairs and maintenance		(885,119)	(2,370,057)
Bulk purchases	27	(52,139,176)	(40,372,093)
General expenses	21	(76,347,543)	(61,048,587)
<b>Total Expenditure</b>		<b>(226,592,609)</b>	<b>(194,174,578)</b>
Gain on disposal of assets and liabilities		22,056	593,607
<b>(Deficit) surplus for the year</b>		<b>(1,723,195)</b>	<b>16,695,378</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Changes in Net Assets

	Revaluation reserve	Housing Operating Account	Accumulated surplus	Total net assets
Figures in Rand				
Opening balance as previously reported	5,991,000	-	108,461,987	114,452,987
Adjustments				
Change in accounting policy	-	-	75,715,019	75,715,019
<b>Balance at 01 July 2010 as restated</b>	<b>5,991,000</b>	<b>-</b>	<b>184,177,006</b>	<b>190,168,006</b>
Changes in net assets				
Write off of reserve	(5,991,000)	-	-	(5,991,000)
Transfers to accumulated surplus	-	-	13,421,855	13,421,855
Net income (losses) recognised directly in net assets	(5,991,000)	-	13,421,855	7,430,855
Profit for the year	-	-	16,695,382	16,695,382
Total recognised income and expenses for the year	(5,991,000)	-	30,117,237	24,126,237
Total changes	(5,991,000)	-	30,117,237	24,126,237
<b>Balance at 01 July 2011</b>	<b>-</b>	<b>-</b>	<b>214,294,243</b>	<b>214,294,243</b>
Changes in net assets				
• Prior year adjustments	-	-	(2,123,138)	(2,123,138)
• Movement in Housing Operating account	-	1,167,378	-	1,167,378
Net income (losses) recognised directly in net assets	-	1,167,378	(2,123,138)	(955,760)
(Deficit) for the year	-	-	(1,723,191)	(1,723,191)
Total recognised income and expenses for the year	-	1,167,378	(3,846,329)	(2,678,951)
Total changes	-	1,167,378	(3,846,329)	(2,678,951)
<b>Balance at 30 June 2012</b>	<b>-</b>	<b>1,167,378</b>	<b>210,447,914</b>	<b>211,615,292</b>

Note(s)

17

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Cash Flow Statement

Figures in Rand	Note(s)	June 2012	June 2011 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Taxation		22,405,319	35,673,552
Sale of goods and services		140,509,680	103,483,347
Grants		73,603,215	64,671,158
Interest income		771,048	1,070,185
Other receipts		5,298,590	2,926,341
		<u>242,587,852</u>	<u>207,824,583</u>
<b>Payments</b>			
Employee costs		(73,827,598)	(66,122,281)
Suppliers		(45,813,409)	(46,736,678)
Finance costs		(763,983)	(1,247,831)
Other payments		(84,828,049)	(60,007,812)
		<u>(205,233,039)</u>	<u>(174,114,602)</u>
<b>Net cash flows from operating activities</b>	28	<u><b>37,354,813</b></u>	<u><b>33,709,981</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	8	(64,126,351)	(31,029,069)
Proceeds from sale of property, plant and equipment	8	28,830,962	618,825
Purchase of investment property	7	-	(310,000)
Purchase of other intangible assets	9	-	(83,139)
<b>Net cash flows from investing activities</b>		<u><b>(35,295,389)</b></u>	<u><b>(30,803,383)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Movement in borrowings		(558,036)	(3,914,898)
Finance lease payments		1,879,176	156,469
<b>Net cash flows from financing activities</b>		<u><b>1,321,140</b></u>	<u><b>(3,758,429)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>3,380,564</b></u>	<u><b>(851,831)</b></u>
Cash and cash equivalents at the beginning of the year		4,844,697	5,696,528
<b>Cash and cash equivalents at the end of the year</b>	6	<u><b>8,225,261</b></u>	<u><b>4,844,697</b></u>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1. Basis of presentation

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The standards are summarised as follows:

GRAP 1 Presentation of Financial Statements  
GRAP 2 Cash Flow Statement  
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP 4 The Effects of Changes in Foreign Exchange Rates  
GRAP 9 Revenue from Exchange Transactions  
GRAP 10 Financial Reporting in Hyperinflationary Economies  
GRAP 11 Construction Contracts  
GRAP 12 Inventories  
GRAP 13 Leases  
GRAP 14 Events after the Reporting Date  
GRAP 16 Investment Properties  
GRAP 17 Property, Plant and Equipment  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP 100 Non Current Assets Held for Sale and Discontinued Operations  
GRAP 101 Agriculture  
GRAP 102 Intangible Assets  
IPSAS 20 Related Party Disclosure  
IAS 39 Financial Instruments

These accounting policies are consistent with the previous period, except for the changes set out in note 39 Changes in accounting policy.

The Municipality opted to take advantage of the transitional provisions as contained in Directive 4, issued by the Accounting Standards Board in March 2009. The municipality did not recognise all the property, plant and equipment and intangible assets in accordance with GRAP for the financial years up to 30 June 2011. The municipality has identified and measured all property, plant and equipment and intangible assets in terms of GRAP for the financial year ended 30 June 2012. The balances of property, plant and equipment and intangible assets have been retrospectively restated accordingly.

A summary of the significant accounting policies which have been consistently applied, except where transitional provisions have been previously granted, are disclosed below.

#### 1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The figures to the annual financial statements are rounded to the nearest rand.

#### 1.2 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.3 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the Municipality:

GRAP 18 Segment Reporting - issued March 2005  
GRAP 21 Impairment of Non- Cash generating assets- issued March 2009  
GRAP 23 Revenue from Non- Exchange Transactions  
GRAP 24 Presentation of Budget Information - issued November 2007  
GRAP 25 Employee Benefits - issued 11 January 2009  
GRAP 26 Impairment of Cash generating assets - issued March 2009  
GRAP103 Heritage Assets  
GRAP104 Financial Instruments

### 1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 1.5 Property, plant and equipment

#### 1.5.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### 1.5.2 Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### 1.5.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful life.

Land is not depreciated as it is deemed to have an indefinite useful life.

Capital work in progress is not depreciated until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The annual depreciation rates are based on the following estimated average asset lives:

<b>Building</b>	25 years	<b>Motor vehicles</b>	5-7 years
<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	20 years	Emergency equipment	5 years
Bridges	30 years	Landfill sites	15 years
Storm water	15 years	Office equipment	5 years
Gravel	20 years	Furniture and fittings	5 years
Substations and Transformers	40 years	Bins and containers	5 years
Poles, Cables and Lights	15-25 years	Plant and equipment	5-7 years
Robots	10 years	Other	5 years
<b>Community</b>			
Buildings	25 years		
Recreational Facilities	5 years		
Security system	5 years		
Dams	5-15 years		
Libraries	15-20 years		
Parks and Gardens	15 years		
Cemeteries	15-20 years		
Community centres	5-20 years		
Computer equipment	3-5 years		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### 1.5.4 Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The residual value and the useful life of each asset are reviewed at the end of each reporting date. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation method applied to an asset is reviewed at each reporting date. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

#### 1.6.1 Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset/s given up.

#### 1.6.2 Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Residual value of intangible assets is estimated to be zero.

#### 1.6.3 Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software      3-5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### 1.6.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.7 Investment property

#### 1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property.

The cost of self-constructed investment property is the cost at date of completion.

#### 1.7.2 Subsequent measurement-Fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

### 1.8 Inventories

#### 1.8.1 Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

#### 1.8.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.9 Financial instruments

#### Classification

The Municipality has types of financial instruments and these can be broadly categorised as either Financial Assets or Financial liabilities.

#### 1.9.1 Initial recognition

Financial instruments are initially recognised at fair value.

#### 1.9.2 Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other").

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.9 Financial instruments (continued)

The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

#### 1.9.2.1 Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as fair value and classified under cash and cash equivalents and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Gains and Losses arising from changes in fair values are included in profit and loss for the period.

#### 1.9.2.2 Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial

reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

#### 1.9.2.3 Trade and other payables from exchange transactions

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net transaction costs incurred. Borrowings are subsequently stated at amortised cost. Long-term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised. Other financial liabilities are carried at amortised cost.

#### 1.9.2.4 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.10 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.11 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.12 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.13 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount

rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.14 Leases

#### 1.14.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

#### 1.14.2 The Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### Operating leases - lessee

Payments made under operating leases are charged to the statement of financial position on a straight line basis over the period of the lease.

#### Operating leases - lessor

Assets leased to third parties under operating lease are included in investment property in the Statement of Financial Position. The assets are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised over the lease term.

### 1.15 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue from property rates is recognised when the legal entitlement to this revenue arises.



## **Accounting Policies**

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### **1.15 Revenue from exchange transactions (continued)**

Collection charges are recognised when such amounts are legally enforceable.

Penalty interest on unpaid rates is recognised on a time proportionate basis.

### **1.16 Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payment is received. There's uncertainty regarding full recoverability of outstanding fines and summons. Spot fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect to summons, the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

#### **1.16.1 Grants, transfer and donations**

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is

conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

### **1.17 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.18 Employee benefits

#### Defined contribution plans

The municipality provides retirement benefits for its employees and councillors. Contributions are made to South African Local Authority Pension Fund and to the Contribution to the South African Local Authority Pension Fund (SALA) and made as follows:

Members-8.6%

Council-20.78%

Contribution to the Natal Joint Provided Fund (NJPF) and are made as follows:

Provident 1.-1 Member-5% Council-13.65%

Provident 2.-2 Member-7% Council-18%

Provident 2.-3 Member-79.25% Council-18%

Retirement

60 Members

Council- 29%

Superannuation

56 Members

Member- 9.25%

Council-25%

Councillors-28.75%

10 Members

Member- 13.75%

Member-15%

#### Medical Aid

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The Municipality provides post- retirement benefits by subsidising the medical aid contributions of certain retired staff according to the rules of the medical aid funds.

### 1.19 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount

of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

## **Accounting Policies**

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### **1.19 Impairment of assets (continued)**

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

### **1.20 Housing Operating Account**

The Housing Operating Account was established in terms of the Housing Account (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the Municipality were extinguished on 01 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for Housing.

### **1.21 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.22 Value Added Taxation**

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>2. INVENTORIES</b>		
Stores, materials and fuels	468,538	477,578
<b>3. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
Sundry debtors	1,507,877	3,949,122
<b>4. VAT RECEIVABLE</b>		
VAT	1,172,409	4,081,272
<b>Movement for the year</b>		
Input Vat	56,794,647	39,624,006
Output Vat	(55,622,238)	(35,542,734)
	<b>1,172,409</b>	<b>4,081,272</b>
<b>5. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>Gross balances</b>		
Rates	16,919,737	17,921,553
Electricity	7,420,456	7,859,821
Refuse	22,305,800	23,626,525
Fire Levy	872,055	923,689
Add: Debtors with Credit Balances	-	3,948,441
	<b>47,518,048</b>	<b>54,280,029</b>
<b>Less: Provision for debt impairment</b>		
Rates	(121,390)	-
Electricity	(4,290,158)	(7,479,276)
Refuse	(20,150,359)	(16,702,482)
Fire Levy	(793,819)	(878,967)
	<b>(25,355,726)</b>	<b>(25,060,725)</b>
<b>Net balance</b>		
Rates	16,798,347	17,921,553
Electricity	3,130,298	1,327,303
Refuse	2,155,441	9,814,463
Fire Levy	78,236	155,985
	<b>22,162,322</b>	<b>29,219,304</b>
<b>Rates</b>		
Current (0 -30 days)	2,211,543	2,342,485
30 Days	689,262	730,072
60 Days	481,876	510,407
90 Days	413,469	437,950
+120 Days	13,123,586	13,900,610
	<b>16,919,736</b>	<b>17,921,524</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>5. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	2,163,425	2,567,547
30 Days	966,874	1,147,483
60 Days	888,413	1,054,366
90 Days	168,840	200,379
+120 Days	3,232,905	3,836,803
	<b>7,420,457</b>	<b>8,806,578</b>
<b>Refuse</b>		
Current (0 -30 days)	1,290,320	1,533,922
30 Days	865,121	1,028,449
60 Days	4,138,060	4,919,290
90 Days	707,050	840,535
+120 Days	15,305,249	18,194,750
	<b>22,305,800</b>	<b>26,516,946</b>
<b>Fire Levy</b>		
Current (0 -30 days)	45,710	54,249
30 Days	32,526	38,602
60 Days	103,350	122,655
90 Days	29,544	35,063
+120 Days	660,924	784,384
	<b>872,054</b>	<b>1,034,953</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	8,302,231	7,627,867
30 Days	-	3,454,925
60 Days	2,767,560	5,571,559
90 Days	1,808,316	1,214,525
+120 Days	34,639,941	36,411,153
	47,518,048	54,280,029
Less: Provision for debt impairment	(25,355,726)	(25,060,725)
	<b>22,162,322</b>	<b>29,219,304</b>
<b>National and provincial government</b>		
Current (0 -30 days)	-	749,101
30 Days	1,914,840	298,781
60 Days	1,493,632	148,647
90 Days	89,284	43,003
+120 Days	114,374	30,478
	3,612,130	1,270,010
Less: Provision for debt impairment	-	(621,529)
	<b>3,612,130</b>	<b>648,481</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(25,060,725)	(23,276,257)
Contributions to provision	(295,001)	4,722,075
Reversal of provision	-	(6,506,543)
	<b>(25,355,726)</b>	<b>(25,060,725)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	20,157	24,821
Bank balances	2,251,292	1,200,797
Short-term deposits	5,953,812	3,619,079
	<b>8,225,261</b>	<b>4,844,697</b>

### Short term deposits

Account number	Account description	Bank statement balances	
		30 June 2012	30 June 2011
FNB - 620 4994 7825	Reserve Account	61,000	61,000
FNB - 620 6810 2682	Peoples Housing Project	28,878	28,587
FNB - 620 8937 2868	Municipal Infrastructure Grant	1,990	2,000
FNB - 620 8992 7663	MSIG Project Consolidate	2,173	1,000
FNB - 621 9170 1476	FMG Provincial Treasury	1,547	97,989
FNB - 621 0368 9230	Horse Shoe Housing	1,273,034	1,224,081
FNB - 621 9024 8221	House Operating Account	1,577,986	1,517,710
STD - 308 6440 85	Small Town Rehabilitation	3,003,209	-
NED- 037 1650 13687	Sport and recreation	(106)	179,166
FNB - 622 9521 8947	LED	2,000	505,542
FNB - 623 0064 1611	GKM Properties rental	2,105	2,000
		<b>5,953,816</b>	<b>3,619,075</b>

### 7. INVESTMENT PROPERTY

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	16,436,000	(9,300)	16,426,700	16,436,000	(9,300)	16,426,700

### Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	16,426,700	16,426,700

### Reconciliation of investment property - 2011

	Opening balance	Additions	Depreciation	Total
Investment property	16,126,000	310,000	(9,300)	16,426,700

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand 2012 2011

### 8. PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and buildings	127,361,681	(78,711,594)	48,650,087	127,163,681	(76,809,474)	50,354,207
Motor vehicles	5,721,190	(1,349,412)	4,371,778	6,117,506	(3,847,578)	2,269,928
Infrastructure	276,000,379	(165,408,947)	110,591,432	258,008,615	(154,908,905)	103,099,710
Community	108,604,326	(79,751,598)	28,852,728	104,889,573	(77,650,220)	27,239,353
Other property, plant and equipment	19,219,844	(8,840,852)	10,378,992	13,784,216	(5,983,423)	7,800,793
Capital work in progress	20,800,553	-	20,800,553	17,260,834	-	17,260,834
Heritage	1,226,325	-	1,226,325	1,226,325	-	1,226,325
<b>Total</b>	<b>558,934,298</b>	<b>(334,062,403)</b>	<b>224,871,895</b>	<b>528,450,750</b>	<b>(319,199,600)</b>	<b>209,251,150</b>

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land and Buildings	50,354,207	198,000	-	(1,902,120)	48,650,087
Motor vehicles	2,269,928	4,164,311	(15,950)	(2,046,511)	4,371,778
Infrastructure	103,099,710	17,991,764	-	(10,500,042)	110,591,432
Community	27,239,353	3,714,753	-	(2,101,378)	28,852,728
Other property, plant and equipment	7,800,793	5,959,914	(235,066)	(3,146,649)	10,378,992
Capital work in progress	17,260,834	32,097,609	(28,557,890)	-	20,800,553
Heritage	1,226,325	-	-	-	1,226,325
	<b>209,251,150</b>	<b>64,126,351</b>	<b>(28,808,906)</b>	<b>(19,696,700)</b>	<b>224,871,895</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Prior period adjustment	Depreciation	Total
Land and Buildings	27,208,843	2,869,213	-	-	22,594,060	(2,317,909)	50,354,207
Motor vehicles	-	726,376	-	-	356,764	1,186,788	2,269,928
Infrastructure	78,779,381	7,547,703	-	-	33,407,230	(16,634,604)	103,099,710
Community	2,607,419	506,207	-	-	22,201,851	1,923,876	27,239,353
Other property, plant and equipment	5,224,594	2,118,736	(25,218)	2,633,711	(2,677,008)	525,978	7,800,793
Heritage	1,195,000	-	-	-	31,325	-	1,226,325
Capital work in progress	-	17,260,834	-	-	-	-	17,260,834
	<b>115,015,237</b>	<b>31,029,069</b>	<b>(25,218)</b>	<b>2,633,711</b>	<b>75,914,222</b>	<b>(15,315,871)</b>	<b>209,251,150</b>

#### Assets subject to finance lease (Net carrying amount)

Motor vehicles	4,371,778	2,269,928
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 9. INTANGIBLE ASSETS

	2012			2011		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	1,598,556	(1,398,909)	199,647	1,598,556	(1,177,515)	421,041

#### Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software, other	421,041	(221,394)	199,647

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Prior Period adjustment	Other changes, movements	Amortisation	Total
Computer software, other	877,802	83,139	(199,204)	75,063	(415,759)	421,041

### 10. FINANCE LEASE OBLIGATION

#### Minimum lease payments due

- within one year	1,063,085	747,065
- in second to fifth year inclusive	2,833,561	740,261
	3,896,646	1,487,326
less: future finance charges	(722,216)	(192,072)

#### Present value of minimum lease payments

#### Present value of minimum lease payments due

- within one year	668,315	757,877
- in second to fifth year inclusive	2,506,115	537,377
	3,174,430	1,295,254
Non-current liabilities	2,506,115	649,913
Current liabilities	668,315	645,341
	3,174,430	1,295,254

### 11. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	4,622,787	2,111,379
Accrued leave pay	4,396,135	6,194,065
Other payables	20,500,455	15,905,141
Add: Debtors with credit balances	3,250,121	3,948,441
	32,769,498	28,159,026

### 12. CONSUMER DEPOSITS

Electricity	3,288,446	2,862,364
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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 13. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Horseshoe Township	1,273,030	1,224,081
Peoples Housing Project 12 and 13	28,878	28,588
Small Town Rehabilitation	2,948,646	-
Local Economic development	-	482,793
KZN Arts and Culture	67,830	155,400
	<b>4,318,384</b>	<b>1,890,862</b>

### 14. PROVISIONS

#### Reconciliation of provisions -2012

	Opening Balance	Utilised during the year	Total
Provision for landfill site	3,678,270	(2,154,503)	1,523,767
Other provisions	1,709,927	611,385	2,321,312
	<b>5,388,197</b>	<b>(1,543,118)</b>	<b>3,845,079</b>

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	5,302,000	-	(1,623,730)	3,678,270
Other provisions	627,220	1,726,917	(644,210)	1,709,927
	<b>5,929,220</b>	<b>1,726,917</b>	<b>(2,267,940)</b>	<b>5,388,197</b>

### 15. BORROWINGS

The following loan bears interest at 12.26% per annum, with bi-annual instalments of R520,762.45 in December and June. The loan is repayable by 31 December 2016 and the capital portion amounts to R5,800,000.

#### Bhekintaba Station

Current Borrowings	629,282	558,036
Non-Current Borrowings	2,890,980	3,520,263
	<b>3,520,262</b>	<b>4,078,299</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
-----------------	------	------

### 16. RETIREMENT BENEFITS

#### Movement for the year

Opening balance	(10,782,151)	(8,993,954)
Net actuarial gains or losses not recognized	(1,124,633)	(974,412)
Current service cost	(454,413)	(386,656)
Interest cost	(889,516)	(808,283)
Contributions	516,387	381,154
	<b>(12,734,326)</b>	<b>(10,782,151)</b>

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

#### Long Service Awards

Opening balance	(2,103,773)	(1,755,696)
Net actuarial gains or losses not recognized	(255,664)	(156,672)
Current service cost	(196,336)	(153,008)
Interest cost	(155,356)	(154,411)
Contributions	218,991	116,014
	<b>(2,492,138)</b>	<b>(2,103,773)</b>

#### Post Employment Health Care Benefits

Present value of the defined benefit obligation - Wholly unfunded	(8,678,378)	(7,238,258)
Net actuarial gains or losses not recognized	(868,969)	(817,740)
Current service cost	(258,077)	(233,648)
Interest cost	(734,160)	(653,872)
Contributions	297,396	265,140
	<b>(10,242,188)</b>	<b>(8,678,378)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 16. RETIREMENT BENEFITS (continued)

#### PeHCL report

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	8.60%
Health care cost inflation rate	7.29%
Net effective discount rate	1.23%

Table 5.2: Key demographic assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Continuation of membership at retirement	100%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	30%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
Withdrawal from service (sample annual rates)	<b>Age</b>	<b>Females</b>	<b>Males</b>
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 16. RETIREMENT BENEFITS (continued)

Table 6.1: Accrued Liability (R millions)

Category	30/06/2011	30/06/2012
<i>In-service members</i>	3.812	4.130
<i>In-service non-members</i>	0.472	0.643
<b>Total In-service</b>	<b>4.284</b>	<b>4.773</b>
<b>Continuation members</b>	<b>4.395</b>	<b>5.469</b>
<b>All members</b>		
Total liability	8.678	10.242
Value of assets	0.000	0.000
<b>Unfunded liability</b>	<b>8.678</b>	<b>10.242</b>

Table 6.2: Current-service and Interest Costs (Rands)

Category of Member	Year ending 30/06/2012	Year ending 30/06/2013
<b>In-service Employees</b>		
Current-service Cost	258,100	313,900
<b>All Eligible Individuals</b>		
Interest Cost	734,200	778,700

Table 6.7 Actuarial Gains and Losses

<b>Actuarial (Gain)/Loss for the period</b>	<b>868,969</b>
Contribution to Actuarial (Gain)/Loss:	
Basis changes: decrease in net discount rate	622,689
Contribution increases higher than assumed	144,512
Changes to membership profile different from assumed	101,768

Table 6.8 History of liabilities and assets (R millions)

	30/06/2010	30/06/2011	30/06/2012
<b>Present value of accrued liability</b>	7.238	8.678	10.242
<b>Fair value of plan asset</b>	0.000	0.000	0.000
<b>Surplus / (deficit)</b>	<b>(7.238)</b>	<b>(8.678)</b>	<b>(10.242)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 16. RETIREMENT BENEFITS (continued)

Table 6.9: History of experience adjustments: Gains and losses (R millions)

Experience adjustments	Year ending 30/06/2011	Year ending 30/06/2012
Liabilities: (Gain) / loss	0.047	0.246
Assets: Gain / (loss)	0.000	0.000

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% Change
Central Assumptions		4.773	5.469	10.242	
Health care inflation	1%	5.770	6.150	11.920	16%
	-1%	3.986	4.893	8.879	-13%
Post-retirement mortality	-1 yr	4.938	5.678	10.616	4%
Average retirement age	-1 yr	5.128	5.469	10.597	3%
Withdrawal Rate	-50%	5.202	5.469	10.671	4%

Table 7.3: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2013

Assumption	Change	Current-Service Cost	Interest Cost	Total	% change
Central Assumptions		313,900	778,700	1,092,600	
Health care inflation	+1%	387,400	908,600	1,296,000	19%
	-1%	256,700	673,200	929,900	-15%
Post-retirement mortality	-1 yr	324,300	807,700	1,132,000	4%
Average retirement age	-1 yr	341,200	806,200	1,147,400	5%
Withdrawal Rate	-50%	357,700	811,900	1,169,600	7%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 16. RETIREMENT BENEFITS (continued)

Table 7.2: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2012

Assumption	Change	Current-Service Cost	Interest Cost	Total	% change
Central Assumptions		258,100	734,200	992,300	
Health care inflation	+1%	317,700	853,300	1,171,000	18%
	-1%	211,500	637,000	848,500	-14%
Post-retirement mortality	-1 vr	266,200	760,100	1,026,300	3%
Average retirement age	-1 vr	283,700	759,200	1,042,900	5%
Withdrawal Rate	-50%	292,300	762,000	1,054,300	6%

Table A4.1: Withdrawal rates

Age	Females	Males
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
> 55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 16. RETIREMENT BENEFITS (continued)

Table A5.1 Past year and future projected Liability

	Year ending 30/06/2012	Year ending 30/06/2013	Year ending 30/06/2014
<b>Opening Accrued Liability</b>	<b>8,678,378</b>	<b>10,242,188</b>	<b>10,973,162</b>
Current-service Cost	258,077	313,886	338,172
Interest Cost	734,160	778,732	834,348
Contributions (benefits paid)	* (297,396)	(361,644)	(386,440)
<b>Total Annual Expense</b>	<b>694,841</b>	<b>730,974</b>	<b>786,080</b>
Actuarial Loss / (Gain)	868,969	-	-
<b>Closing Accrued Liability</b>	<b>10,242,188</b>	<b>10,973,162</b>	<b>11,759,242</b>

Table A5.2 Balance Sheet Figures

	Year ending 30/06/2012	Year ending 30/06/2013
<b>Balance Sheet</b>		
Fair Value of Plan Assets	-	-
Accrued Liability	10,242,188	10,973,162
<b>Unfunded Accrued Liability</b>	<b>10,242,188</b>	<b>10,973,162</b>
Unrecognised Transitional Liability	-	-
Unrecognised Actuarial Gains/(Losses)	-	-
Unrecognised Past Service Cost	-	-
Miscellaneous Item	-	-
<b>Net Liability in Balance Sheet</b>	<b>10,242,188</b>	<b>10,973,162</b>

Table A5.3 Reconciling and Projecting the Unfunded Accrued Liability

	Year ending 30/06/2012	Year ending 30/06/2013
<b>Unfunded Accrued Liability</b>		
Opening Balance	8,678,378	10,242,188
Current-service Cost	258,077	313,886
Interest Cost	734,160	778,732
Expected Return on Plan Assets	-	-
<b>Actuarial (Gain)/Loss</b>	<b>868,969</b>	<b>-</b>
Past-service Cost	-	-
Effect of Curtailment/Settlement	-	-
<b>Expected Employer Benefit Payments</b>	<b>(297,396)</b>	<b>(361,644)</b>
Employer Prefunding Contributions	-	-
<b>Closing Balance</b>	<b>10,242,188</b>	<b>10,973,162</b>
<b>Projected Accrued Liability</b>	<b>9,373,219</b>	<b>10,973,162</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>17. REVALUATION RESERVE</b>		
Opening balance	-	5,991,000
Change during the year	-	(5,991,000)
	-	-

## 18. PROPERTY RATES

### Rates received

Residential	21,287,676	21,140,571
Commercial	23,488,814	24,855,174
State	26,508,480	25,876,657
Less: Rates Rebates	(19,239,046)	(19,621,700)
	52,045,924	52,250,702
Property rates - penalties imposed and collection charges	2,640,932	458,803
	<b>54,686,856</b>	<b>52,709,505</b>

### Valuations

	R'000	R'000
Residential	1,044,462	1,059,163
Commercial	1,604,816	1,627,405
State	778,227	789,181
Municipal	117,782	119,440
	<b>3,545,287</b>	<b>3,595,189</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rates for the year under review have been levied as follows:

Category	Randage in Cents/Rand	Rebate%	Exemption
Residential	0.02 cents/rand	41	40,000
Commercial	0.03 cents/rand	22	-

## 19. SERVICE CHARGES

Sale of electricity	73,141,032	68,248,156
Refuse removal	12,146,667	10,340,368
Other service charges	4,904,646	5,412,072
	<b>90,192,345</b>	<b>84,000,596</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
-----------------	------	------

### 20. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	42,946,000	36,196,084
MSIG Project Consolidate	790,000	750,000
Financial Management Grant	1,250,000	3,795,224
KZN Province	482,793	17,207
Municipal Infrastructure Grant	15,927,000	8,718,865
Housing Grant	7,421,101	10,040,868
Lottery Funding	-	996,312
DME	-	1,898,663
Sports and Recreation	703,106	1,624,317
Arts and Culture	831,861	633,618
Small Town Rehabilitation	3,251,354	-
	<b>73,603,215</b>	<b>64,671,158</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### MSIG Project Consolidate

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-

#### Financial Management Grant - FMG

Balance unspent at beginning of year	-	170,504
Current-year receipts	1,250,000	2,857,868
Conditions met - transferred to revenue	(1,250,000)	(3,028,372)
	-	-

#### KZN Province

Balance unspent at beginning of year	-	351,495
Current-year receipts	-	8,150
Other	-	(359,645)
	-	-

#### Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	-	34,556
Current-year receipts	15,927,000	14,364,212
Conditions met - transferred to revenue	(15,927,000)	(14,398,768)
	-	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>20. GOVERNMENT GRANTS AND SUBSIDIES (continued)</b>		
<b>Small Town Rehabilitation</b>		
Current-year receipts	6,200,000	-
Conditions met - transferred to revenue	(3,251,354)	-
	<b>2,948,646</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Horseshoe Township</b>		
Balance unspent at beginning of year	1,224,081	1,186,657
Current-year receipts	48,949	37,424
	<b>1,273,030</b>	<b>1,224,081</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Arts and culture</b>		
Balance unspent at beginning of year	155,400	-
Current-year receipts	744,291	789,018
Conditions met - transferred to revenue	(831,861)	(633,618)
	<b>67,830</b>	<b>155,400</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Peoples Housing Grant</b>		
Balance unspent at beginning of year	28,588	32,243
Current-year receipts	291	-
Conditions met - transferred to revenue	-	(3,655)
	<b>28,879</b>	<b>28,588</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Sports and Recreation</b>		
Current-year receipts	675,000	1,575,000
Conditions met - transferred to revenue	(675,000)	(1,575,000)
	<b>-</b>	<b>-</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>21. GENERAL EXPENSES</b>		
Actuarial loss - post employment benefit	1,124,633	974,412
Administration	150,223	198,636
Advertising	784,151	565,695
Auditors remuneration	1,524,412	1,791,729
Bank charges	383,361	262,161
Commission paid	455,086	136,095
Conferences and seminars	214,320	252,858
Consulting and professional fees	3,309,679	1,256,424
Current service cost	454,413	386,656
Departmental consumption	3,464,531	1,243,057
Entertainment	146,335	95,514
Financial management grant	1,108,759	3,795,224
Fuel and oil	1,581,186	1,040,040
Grant expenses	12,221,099	13,292,965
Insurance	2,538,758	1,873,505
Interest cost on post employment benefit	889,516	808,283
Lease rentals on operating lease	2,584,000	579,566
Levies	11,339	10,181
Licence fees	135,088	112,154
Loss on disposal of assets	251,015	14,515
Magazines, books and periodicals	1,599,671	1,578,413
Other expenses	26,138,240	18,775,895
Postage and courier	620,669	594,137
Printing and stationery	882,500	664,371
Security (Guarding of municipal property)	3,689,390	2,725,285
Stocks and materials	1,198,404	1,189,364
Electricity network	1,705,021	1,572,258
Telephone and fax	1,081,832	1,127,428
Training	919,900	1,312,440
Transport claims	79,977	262,230
Travel - local	3,351,196	1,986,720
Uniforms	781,401	429,885
Valuation costs	967,438	140,491
	<b>76,347,543</b>	<b>61,048,587</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 22. EMPLOYEE RELATED COSTS

Basic	51,515,746	47,739,194
Bonus	1,453,564	832,385
Medical aid - company contributions	193,021	116,634
UIF	688,872	563,169
Post-employment benefits - Pension - Defined contribution plan	7,628,764	5,839,917
Travel, motor car, accommodation, subsistence and other allowances	4,039,345	3,734,068
Overtime payments	1,967,174	2,393,827
Long-service awards	655,942	1,363,993
Housing benefits and allowances	1,124,971	340,691
	<b>69,267,399</b>	<b>62,923,878</b>

### Remuneration of Municipal Manager

Annual Remuneration	650,518	814,859
Car and Cellphone Allowance	170,784	138,000
Performance and other Bonuses	168,180	96,423
Contributions to UIF, Medical and Pension Funds	78,049	45,000
Housing Allowance	101,776	-
Leave Payout	189,291	-
	<b>1,358,598</b>	<b>1,094,282</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	361,781	443,276
Car and Cellphone allowance	149,826	185,409
Contributions to UIF, Medical and Pension Funds	65,567	81,850
Housing Allowances	30,785	39,464
Performance Bonus	82,387	71,200
Leave Payout	150,377	-
	<b>840,723</b>	<b>821,199</b>

### Remuneration of Corporate Services Manager- Senior Manager- Mr LT Somtseu

Annual Remuneration	531,966	472,719
Car Allowance, Cell Allowance	172,643	240,984
Performance Bonuses and other	82,387	75,947
Contributions to UIF, Medical and Pension Funds	28,526	36,296
Leave Payout	206,260	-
	<b>1,021,782</b>	<b>825,946</b>

### Remuneration of Social Development Manager- Senior Manager- Mr N Msiya

Annual Remuneration	487,858	460,529
Car Allowance, Cell Allowance	166,339	165,590
Performance Bonuses	82,387	53,454
Contributions to UIF, Medical and Pension Funds	78,594	79,891
Housing Allowance	53,988	43,988
	<b>869,166</b>	<b>803,452</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
-----------------	------	------

### 22. EMPLOYEE RELATED COSTS (continued)

#### Remuneration of Infrastructure Planning and Development Manager- Senior Manager- Mr AW Velem

Annual Remuneration	467,106	443,276
Car Allowance, Cell Allowance	161,075	185,977
Performance Bonuses	82,387	71,200
Contributions to UIF, Medical and Pension Funds	97,401	62,549
Housing	61,198	58,198
	<b>869,167</b>	<b>821,200</b>

### 23. REMUNERATION OF COUNCILLORS

Mayor	-	550,197
Mayor - After May 2011	630,735	46,918
Deputy Mayor	-	445,644
Deputy Mayor - After May 2011	508,358	38,088
Speaker	-	445,644
Speaker - After May 2011	508,358	38,088
Executive Committee Member	264,155	422,561
Councillors	1,400,276	802,767
Councillors' pension and medical aid contributions	268,269	107,856
Councillors allowances	675,258	300,640
	<b>4,255,409</b>	<b>3,198,403</b>

#### In-kind benefits

The Mayor, Deputy Mayor, Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle for official duties.

### 24. DEBTS WRITTEN OFF

Debt written off	1,428,415	6,506,544
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### 25. DEPRECIATION AND AMORTISATION

Property, plant and equipment	19,696,701	15,535,435
Intangible assets	221,394	205,497
	<b>19,918,095</b>	<b>15,740,932</b>

### 26. FINANCE COSTS

Borrowings	763,983	1,247,831
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### 27. BULK PURCHASES

Electricity	52,139,176	40,372,093
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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>28. CASH GENERATED FROM OPERATIONS</b>		
(Deficit) surplus	(1,723,195)	16,695,378
<b>Adjustments for:</b>		
Depreciation and amortisation	19,918,095	15,740,932
Gain sale of assets and liabilities	(22,056)	(593,607)
Debt impairment	1,428,415	6,506,544
Movements in retirement benefit assets and liabilities	1,952,175	1,788,198
Movements in provisions	(1,543,118)	(541,022)
Non cash item	(2,123,129)	-
Transfer of Housing Operating Account	1,167,378	-
<b>Changes in working capital:</b>		
Inventories	9,040	(130,785)
Trade and other receivables from exchange transactions	-	(2,753,747)
Other receivables from non-exchange transactions	2,441,245	(2,776,722)
Consumer debtors	5,628,567	(1,784,469)
Prepayments	(151,536)	266,398
Trade and other payables from exchange transactions	4,610,466	3,689,795
VAT	2,908,863	(2,127,997)
Unspent conditional grants and receipts	2,427,521	(348,406)
Consumer deposits	426,082	79,491
	<b>37,354,813</b>	<b>33,709,981</b>

## 29. COMMITMENTS

### Authorised capital expenditure

#### Approved and Contracted for

• Infrastructure	50,403,123	12,842,141
• community	-	17,541,920
• Electricity	2,000,000	-
	<b>52,403,123</b>	<b>30,384,061</b>

#### Approved but not yet contracted for

• Infrastructure	3,900,000	14,971,279
• Community	14,900,000	31,193,741
	<b>18,800,000</b>	<b>46,165,020</b>

The expenditure will be financed from Government grants and own resources.

### Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	694,285	585,703
- in second to fifth year inclusive	365,676	364,372
- later than five years	312,859	-
	<b>1,372,820</b>	<b>950,075</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012

2011

### 30. RISK MANAGEMENT

#### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

#### Financial risk management

The Directorate: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The entity does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

#### Significant Accounting Policies

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies to the annual financial statement

#### Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

#### Interest Rate Risk Management

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term debtors, consumer debtors, other debtors, and bank and cash balances. The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates

#### Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

The municipality's sensitivity to interest rates has decreased during the current period mainly due to the reduction in the balance of the variable rate debt instrument.

#### Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 33 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.(cash). The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increasing tariffs and the increased use of unsecured bank loan facilities.

#### Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 30. RISK MANAGEMENT (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

### 31. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 32. EVENTS AFTER THE REPORTING DATE

There have been no facts or circumstances of a material nature that have occurred between the balance sheet date and the date of this report that require adjustment to or disclosure in the annual financial statements.

### 33. FRUITLESS AND WASTEFUL EXPENDITURE

June 2007 - Penalties and interest SARS	-	5,279
June 2008 - Penalties and interest SARS	-	11,967
June 2009 - Penalties and interest SARS	-	182,304
June 2010 - Penalties and interest SARS	-	3,354
Incorrect supplier banking(PMPZ)	76,949	-
	<b>76,949</b>	<b>202,904</b>

A creditor, PMPZ Consulting, was inadvertently double paid in respect of an expense that was incurred during the year. The municipality has attempted to recover the amount with no success. The corresponding VAT on the duplicate invoice will be disallowed as an input tax credit and therefore the full amount has been provided for a fruitless and wasteful expenditure.

### 34. IRREGULAR EXPENDITURE

Opening balance	2,719,490	478,163
Add: Irregular expenditure - current year	34,770	2,719,490
Less: Amounts condoned	-	(478,163)
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	<b>2,754,260</b>	<b>2,719,490</b>

#### Details of irregular expenditure – current year

Cllr B.M Mtolo was a member of Zincume Mangeni JV Security, he subsequently resigned 25 July Payments were in relation to inauguration of council for the period May 2011- 25 July 2011 when he officially resigned as director.	34,770
--	--------

### 35. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

#### Contributions to organised local government

Current year subscription / fee	309,463	281,330
Amount paid - current year	(309,463)	(281,330)
	-	-



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 35. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

#### Audit fees

Current year subscription / fee	1,502,781	1,791,729
Amount paid - current year	(1,502,781)	(1,791,729)
	-	-

#### PAYE and UIF

Current year subscription / fee	10,116,099	8,384,004
Amount paid - current year	(10,116,099)	(8,384,004)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	15,213,695	13,070,941
Amount paid - current year	(15,213,695)	(13,070,941)
	-	-

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

Kindly note councillors listed below have made arrangements for settlement with the Municipality.

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor ZA Mhlongo	-	9,967	9,967
Councillor N Mavuka	-	7,769	7,769
Councillor N T Mqikela	-	2,033	2,033
	-	19,769	19,769

  

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor ZA Mhlongo	-	14,988	14,988
Councillor P Nocanda	-	3,305	3,305
Councillor N Mavuka	-	10,868	10,868
	-	29,161	29,161

#### Councillors in debt with the municipality

The matter in question relates to cellphone contract subscriptions paid by the municipality on behalf of the councillors.

The matter has been reported to the council.

Adequate steps have been taken to recoup municipal funds.

Cllr B.M Mtolo	13,087
Cllr X. Xelithole	12,805
Cllr N.Mqilela	12,161

## Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>36. SCM DEVIATIONS</b>		
<b>Description</b>		
Sole Suppliers	324,023	1,252,724
Emergencies	67,459	404,659
One quote	131,164	1,885,574
Two quotes	50,000	659,011
Other deviations	1,347,997	-
	<b>1,920,643</b>	<b>4,201,968</b>

## Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

### Notes to the Annual Financial Statements

Figures in Rand

2012

2011

#### 37. CONTINGENT LIABILITIES

The municipality is involved in the following litigation issues as stated in the table below.

The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely.

	Type	Issue	Name of Attorney	Instruction Date
1.	CIDB Hearing	Alleged Irregular Award of Tender of Phase 3 Road Construction.	Matthew Francis Inc.	11/08/2010
2.	High Court Civil Litigation	Improper Township Development (Ext7) by Torgos PTY (Ltd)	Matthew Francis Inc.	03/11/2010
3.	High Court Civil Litigation	Shayamoya Landfill Site Rehabilitation - Bid Award Objection by MKT Construction (The Unpreferred Bidder)	Matthew Francis Inc.	04 August 2011
4.	High Court Civil Litigation	Electricity Tariffs Dispute (Kokstad Chamber of Commerce on behalf of some businesses)	Matthew Francis Inc.	19 October 2011
5.	Objection Hearing	ICT Turnaround Strategy (Bid Award)	Matthew Francis Inc.	21 May 2012
6.	High Court Civil Litigation	Breach of contract- Inkunzi Civils	Elliot & Walker Attorneys	15 November 2007
7.	Registrar of Deeds Enquiries	Acquisition of Title Deeds	Mchunu-Mzila Inc.	26 May 2010

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 38. CORRECTION OF ERROR

Contributions to local government were incorrectly disclosed as R 309 463 in the year 2011 financial year, this figure related to 2011/2012 financial year.

The correct value as at 30 June 2011 was R 281 330. Refer to note 35. Additional disclosure as per Municipal Finance Act.

### 39. CHANGES IN ACCOUNTING POLICY

Greater Kokstad Municipality is a low capacity Municipality and hence has to fully comply to all accounting standards as issued by Directive 5 of the Accounting Standards Board.

The accounting implication in the current year would require Kokstad to comply fully with the Standards of Generally Recognised Accounting Practice and the exemption of valuation would be adjusted for retrospectively in the annual financial statements.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the full implementation of the following standards:

- GRAP 16 - Investment Property
- GRAP 17 - Property, Plant and Equipment
- GRAP 102- Intangible Assets

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2011 is as follows:

#### Statement of financial position

##### Property, plant and equipment

Previously stated	-	140,082,464
Adjustment	-	69,168,685
	-	<b>209,251,149</b>

##### Intangible assets

Previously stated	-	825,742
Adjustment	-	(404,701)
	-	<b>421,041</b>

##### Opening retained earnings

Previously stated	145,530,258	108,461,987
Adjustment	68,763,985	75,715,019
	<b>214,294,243</b>	<b>184,177,006</b>

#### Statement of financial performance

##### Amortisation

Previously stated	-	(210,262)
Adjustment	-	(205,497)
	-	<b>(415,759)</b>

##### Depreciation

Previously stated	-	(8,570,334)
Adjustment	-	(6,745,537)
	-	<b>(15,315,871)</b>

Name of Grants	Name of organ of state/municipal entity	Unaudited portion 2010/2011 financial statements			Quantity Receipts			Total Receipts	Quantity Expenditure			April to June	Total Expenditure	Unaudited portion 2011/2012 financial statements	Grants and Subsidies delayed / withheld	Reason for delay withholding of funds	Did your municipality comply with the grant or subsidy framework of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		July to Sept	Oct to Dec	Jan to Mar	April to June	July to Sept	Oct to Dec		July to Sept	Oct to Dec	Jan to Mar							
Equitable Share	National Treasury	17,894,000	7,660,000	17,392,000		(17,894,000.00)	(7,660,000.00)	42,846,000	(17,894,000.00)	(7,660,000.00)	(17,392,000.00)		(42,846,000.00)	-	NO	N/A	YES	N/A
MIG	DPFG	33,494,000		2,431,000		(4,608,733.00)	(2,035,995.02)	15,927,000	(4,608,733.00)	(2,035,995.02)	(4,607,631.24)	(4,534,600.74)	(16,927,000.00)	-	NO	N/A	YES	N/A
FMG	National Treasury	1,250,000				(1,174,887.72)	(125,112.28)	1,286,000	(1,174,887.72)	(125,112.28)			(1,286,000.00)	-	NO	N/A	YES	N/A
MSIG	LGTA	790,000				(15,000.00)	(273,350.00)	790,000	(15,000.00)	(273,350.00)	(284,350.15)	(267,389.85)	(790,000.00)	-	NO	N/A	YES	N/A
SPORTS AND RECREATION		525,000		150,000		(675,000.00)		675,000	(675,000.00)				(675,000.00)	-	NO	N/A	YES	N/A
LED GRANT	LGTA					(482,793.47)		482,793	(482,793.47)				(482,793.47)	-	NO	N/A	YES	N/A
HOUSING	Department Of Housing	2,044,861	600,991	3,373,070	2,569,556	(1,546,257.03)	(242,186.05)	8,588,478	(1,546,257.03)	(242,186.05)	(1,292,891.25)	(3,834,756.32)	(7,421,100.69)	1,167,378	NO	N/A	YES	N/A
ARTS AND CULTURE		551,491		90,000	109,800	(111,299.68)	(66,439.15)	898,091	(111,299.68)	(66,439.15)	(237,350.43)	(239,771.29)	(831,861.04)	67,830	NO	N/A	YES	N/A
SMALL TOWNS REHABILITATION	Cooperative Ox and Traditional Affairs			6,200,000				6,200,000			(1,032,411.22)	(3,141,013.06)	(3,261,354.18)	2,945,646	NO	N/A	YES	N/A
HORSESHOE HOUSING		12,409	17,062	17,179	12,798			1,271,030						1,271,030				
PEOPLES HOUSING		28,588	72	72	73			28,078						28,078				
		38,963,036	8,773,124	29,650,322	2,682,727	(26,547,951)	(1,048,033)	79,060,871	(26,547,951)	(1,048,033)	(23,964,964)	(11,997,602)	(73,975,109)	5,485,762				

KSTAD MUNICIPALITY  
APPENDIX E  
STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION  
as at 30 June 2012

as at 30 June 2012									
Description	Original Budget	Budget Adjustments (i.i.o. s28 & s31 Of The MFMA)	Virement (i.i.o. Council Approved By-law)	Final Budget	Actual Income	Unauthorised Expenditure	Variance	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget
	1	2	3	4	5	6	7	8	9
<b>Financial Performance</b>									
Property Rates	76,961,000	75,640,000	-	75,640,000	52,045,924	-	23,594,076	69	68
Service Charges	108,878,000	112,402,000	-	112,402,000	90,163,770	-	22,238,230	80	84
Investment Revenue	1,000,000	661,000	-	661,000	771,048	-	-110,048	117	77
Transfers Recognised - Operational	49,306,000	41,935,000	-	41,935,000	2,871,861	-	39,063,139	7	6
Other Own Revenue	31,618,000	30,896,000	-	30,896,000	78,992,096	-	-48,096,096	256	250
<b>Total Revenue (Excluding Capital Transfers &amp; Contributions)</b>	<b>265,763,000</b>	<b>261,534,000</b>	<b>-</b>	<b>261,534,000</b>	<b>224,844,699</b>	<b>-</b>	<b>36,689,301</b>	<b>528</b>	<b>485</b>
Employee Costs	73,487,000	67,615,000	-	67,615,000	69,602,189	-	-1,987,189	103	95
Remuneration Of Councillors	4,831,000	4,314,000	-	4,314,000	4,255,409	-	58,591	99	88
Debt Impairment	-	-	-	-	-	-	-	-	-
Depreciation & Asset Impairment	2,000,000	1,000,000	-	1,000,000	20,310,993	-	-19,310,993	2,031	1,016
Finance Charges	1,525,000	1,042,000	-	1,042,000	704,061	-	337,939	68	46
Materials & Bulk Purchases	50,350,000	50,350,000	-	50,350,000	53,844,197	-	-3,494,197	107	107
Transfers & Grants	-	-	-	-	-	-	-	-	-
Other Expenditures	80,408,000	91,654,000	-	91,654,000	78,315,045	-	13,338,955	85	97
<b>Total Expenditure</b>	<b>212,601,000</b>	<b>215,975,000</b>	<b>-</b>	<b>215,975,000</b>	<b>227,031,894</b>	<b>-</b>	<b>-11,056,894</b>	<b>2,493</b>	<b>1,449</b>
<b>Surplus/(Deficit)</b>	<b>53,162,000</b>	<b>45,559,000</b>	<b>-</b>	<b>45,559,000</b>	<b>-2,187,195</b>	<b>-</b>	<b>47,746,195</b>	<b>-1,964</b>	<b>-964</b>
Transfers Recognised - Capital	37,277,000	41,483,000	-	41,483,000	27,082,248	-	14,400,752	65	73
Contributions Recognised - Capital & Contributed Assets	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) After Capital Transfers &amp; Contributions</b>	<b>90,439,000</b>	<b>87,042,000</b>	<b>-</b>	<b>87,042,000</b>	<b>24,895,053</b>	<b>-</b>	<b>62,146,947</b>	<b>65</b>	<b>73</b>
Share Of Surplus/(Deficit) Of Associate	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) For The Year</b>	<b>90,439,000</b>	<b>87,042,000</b>	<b>-</b>	<b>87,042,000</b>	<b>24,895,053</b>	<b>-</b>	<b>62,146,947</b>	<b>65</b>	<b>73</b>
<b>Capital Expenditure &amp; Funds Sources</b>									
<b>Capital Expenditure</b>	<b>90,440,000</b>	<b>87,043,000</b>	<b>-</b>	<b>87,043,000</b>	<b>70,028,248</b>	<b>-</b>	<b>17,014,752</b>	<b>160</b>	<b>153</b>
Transfers Recognised - Capital	37,276,000	41,483,000	-	41,483,000	27,082,248	-	14,400,752	65	73
Public Contributions & Donations	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-
Internally Generated Funds	53,164,000	45,560,000	-	45,560,000	42,946,000	-	2,614,000	94	81
<b>Total Sources Of Capital Funds</b>	<b>90,440,000</b>	<b>87,043,000</b>	<b>-</b>	<b>87,043,000</b>	<b>70,028,248</b>	<b>-</b>	<b>17,014,752</b>	<b>160</b>	<b>153</b>
<b>Cash flows</b>									
Net Cash From (Used) Operating	-	-	-	-	-	-	-	-	-
Net Cash From (Used) Investing	-	-	-	-	-	-	-	-	-
Net Cash From (Used) Financing	-	-	-	-	-	-	-	-	-
<b>Cash/Cash Equivalents At The Year End</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

GREATER KOKSTAD MUNICIPALITY

APPENDIX B

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT

FOR THE ENDED 30 JUNE 2012

	Opening Balance 01/07/2011 R	Prior Period Error	Additions R	Disposals R	Transfers R	Closing Balance 30/06/2012 R	Accumulated Depreciation				Transfers R	Other movements R	Carrying Value R
							Opening Balance 01/07/2011 R	Prior Period Error	Depreciation R	Disposals R			
Land and Buildings	62,207,288	65,154,662	198,000	-	-	127,559,950	-32,554,362	-44,255,111	-1,902,120	-	-	-	48,848,358
Land and Buildings													
Infrastructure													
Roads	123,957,735	-317,865	1,787,748,95	-	-	141,517,369	-87,699,421	26,636,865	-6,696,187	-	-	-	73,558,626
Electricity Mains	142,116,790	-7,948,356	114,256	-	-	134,284,699	-98,741,342	5,094,993	-3,803,855	-	-	-	36,834,495
Community Assets													
Halls and stadiums	266,076,525	-8,266,221	17,991,764	-	-	275,802,068	-186,640,763	31,731,858	-10,500,043	-	-	-	110,393,121
Heritage Assets													
Museum	20,922,020	81,992,830	5,688,876	-	-	108,604,326	-17,949,875	-59,700,345	-2,101,378	-	-	-	28,852,727
Work in progress													
Museum	1,195,000	31,325	-	-	-	1,226,325	-	-	-	-	-	-	1,226,325
Work in progress	17,200,834	-	32,081,416	-	-28,541,697	20,800,553	-	-	-	-	-	-	20,800,553
Total carried forward	18,455,834	31,325	32,081,416	-	-28,541,697	22,026,878	-237,145,000	-72,223,598	-14,503,541	-	-	-	22,026,878
	367,662,267	138,912,596	55,860,056	-	-28,541,697	533,993,222	-	-	-323,872,139	-	-	-	210,121,083

GREATER KOKSTAD MUNICIPALITY

APPENDIX B

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT

FOR THE ENDED 30 JUNE 2012

FOR THE PERIOD ENDING 30 JUNE 2012														
	Cost / Revaluation					Accumulated Depreciation					Transfers	Other movements	Carrying Value	
	Opening Balance 01/07/2011	Prior Period Error	Additions	Disposals	Transfers	Closing Balance 30/06/2012	Opening Balance 01/07/2011	Prior Period Error	Depreciation	Disposals				Closing Balance 30/06/2012
	R		R	R	R	R	R		R	R	R	R	R	R
Total brought forward	R'000	367,662,267		55,960,056		533,993,222	(237,145,000)	(72,223,598)	(14,503,541)		(323,872,139)			210,121,083
Other Assets														
Furniture & Fittings		3,303,006	(1,797,797)	579,382	(101,879)	1,982,713	(2,121,406)	1,409,623	(325,862)	62,451	(975,193)			1,007,520
Plant and equipment		8,061,255	670,616	4,705,344	-78,697,84	13,358,518	(2,138,321)	(1,634,142)	(2,085,828)	61,199	(5,797,092)			7,561,426
Computer Equipment		3,603,400	(786,161)	160,188	(330,661)	2,646,766	(2,929,349)	1,865,536	(510,886)	157,180	(1,417,515)			1,229,252
Office Equipment		852,028	71,092	321,175	(13,048)	1,231,847		(435,318)	(224,074)	8,391	(651,001)			580,846
		15,820,291	(1,842,251)	5,766,089	(524,285)	19,219,843	(7,189,072)	1,305,699	(3,146,649)	289,222	(8,840,800)			10,379,044
Motor Vehicles		6,592,001	(523,995)	4,213,811	(4,560,627)	5,721,190	(5,865,625)	2,066,722	(2,045,686)	4,495,177	(1,349,412)			4,371,778
		6,592,001	(523,995)	4,213,811	(4,560,627)	5,721,190	(5,865,625)	2,066,722	(2,045,686)	4,495,177	(1,349,412)			4,371,778
Total		390,074,556	(2,366,246)	65,939,956	(5,084,912)	588,934,255	(250,199,697)	(68,951,177)	(19,695,877)	4,784,399	(334,062,351)			224,871,904

# GREATER KOKSTAD MUNICIPALITY

## APPENDIX A

### SCHEDULE OF EXTERNAL LOANS

FOR THE ENDED 30 JUNE 2012

EXTERNAL LOANS		Redeemable Date	Balance at 30 June 2011	Received during the period	Redeemed / written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
LONG-TERM LOANS								
INCA - R 5,800,000.00	12.26%	30/06/2016	4,078,298	-	(558,036)	3,520,262		
Total long-term loans			4,078,298	-	(558,036)	3,520,262		
TOTAL EXTERNAL LOANS			4,078,298		(558,036)	3,520,262		